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An Investment House Using Contracts for Differences to Grow the Business

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An Investment House Using Contracts for Differences to Grow the Business

Applied Research Project Proposal

submitted by

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[28 February 2023]

Approved:

DECLARATION

I, **Mothepu Zebedia Maine**, declare that this business venture proposal is my own work except as indicated in the references and acknowledgements. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration in the Graduate School of Business Administration, University of the Witwatersrand, Johannesburg. It has not been submitted before for any degree or examination in this or any other university.

Mothepu Zebedia Maine



Signed at Krugersdorp On the 28th day of February, 2023.

DEDICATION

To my daughter Reabetsoe Maine and my son Keletso Maine, I hope the little bit I have achieved academically will inspire you to achieve your very best in life.

ACKNOWLEDGEMENTS

This body of work would not have been possible without the support from my Supervisor, Dr Renee Horne. Her guidance made a huge impact in my ability to complete the research as part of my MBA studies.

Table of Contents

1. EXECUTIVE SUMMARY 4

2. INTRODUCTION 5

2.1. PROBLEM 7

A. OBJECTIVE 7

B. RESEARCH QUESTIONS TO BE ADDRESSED WHILE PURSUING ABOVE OBJECTIVES 8

3. LITERATURE REVIEW 9

3.1. POPULAR BUSINESS GROWTH STRATEGIES 9

3.1.1. Bootstrap Finance 9

3.1.2. Financing Growth Through Debt 9

3.1.3. Venture Capitalists 10

3.2. BACKGROUND ON CFDS 11

3.3. DEFINING CFDS AND THE DIFFERENT TYPES? 11

3.3.1. Defining a CFD 11

3.3.2. Types of CFD 12

3.4. MARKET SIZE FOR CFDS 12

3.5. TRANSACTION COSTS 13

3.6. AUSTRALIAN APPROACH TO CFDS 13

3.7. TIMING THE MARKETS AROUND EARNINGS ANNOUNCEMENTS 13

3.8. PERFORMANCE OF CFD TRADERS FOR AUSTRALIAN MARKETS 14

3.9. TAKING LESSONS TO IMPROVE ON FUTURE TRADES 14

3.10. PROFITABILITY OF CFDS 14

3.11. AUTOMATED TRADING 15

3.12. RISKY AND UNETHICAL BEHAVIOURS OF COMPANIES SHORTING LISTED STOCKS 16

4. METHODOLOGY 18

4.1. ETHICAL CONSIDERATIONS 19

5. RESULTS ANALYSIS 20

5.1. HEDGE FUND MANAGERS 20

5.2. FINANCIAL STATEMENTS FROM LISTED COMPANIES 26

6. CONCLUSION AND FUTURE POTENTIAL RESEARCH 30

7. THE BUSINESS PLAN 32

7.1. BUSINESS GOALS/OBJECTIVES 32

7.2. THE MARKETING PLAN 32

7.3. Business Model 33
7.4. Key Relationships 33
7.5. Key Activities 34
7.6. Key resources 35
7.7. Value Propositions 35
7.8. Customer Relationships 35
7.9. Channels 36
7.10. Customer Segments 36
7.11. Cost Structure 37
7.12. Revenue Streams 37
8. APPENDIX 1 – BUSINESS MODEL CANVAS 38
9. APPENDIX 2 – PROJECTED CASHFLOW 40
10. BIBLIOGRAPHY 41

Table of Figures

Figure 1: CFD Regulation by Country 6

Figure 2: Peregrine Lifetime returns of their Pure SA Hedge Fund and comparison 21

Figure 3: Peregrine risk measures and comparison.....21

Figure 4: Obsidian Long Short retail hedge fund lifetime returns (A2 Class) 22

Figure 5: Laurium Hedge Funds performance and comparison (a).....23

Figure 6: Laurium Hedge Funds performance and comparison (b).....23

Figure 7: Laurium Hedge Funds performance and comparison (c).....24

Figure 8: Oystercatcher Long Short Retail Hedge Fund Lifetime returns.....24

Figure 9: Anchor Stable SNN Retail Hedge Fund Lifetime Returns 25

1. Executive Summary

The world of financial markets and investments has grown enormously over the years, with various products developed over the years. Besides the normal shares that one can invest in, bonds, Single Stock Futures (SSF), exchange traded products/notes and Contracts for Differences (CFDs) have been introduced into the financial markets. SSFs and CFDs are leveraged financial instruments that are derivatives of shares. They leveraged, meaning that the profits and losses resulting from the derivatives are enhanced when compared to profits and losses from normal shares investments/trading.

The research conducted for this business venture report indicates that there is a potential market gap that can be exploited. The SSFs are more costly compared to CFDs and they expire every three months. The CFDs on the other hand do not expire, meaning they can be held for a long time, as long as they don't move too fast and far against your position. This business venture proposal justifies through research, that the CFDs are the cost-effective derivative instruments through an investment house to grow a business.

Data analysis over hedge fund managers' performance through unspecified derivatives, and hedging activities by different listed firms gleaned from their financial statements give a strong assurance that the business model based on the CFDs is viable. The business model and proposal was first developed using the business canvas model together with some financial assumptions, and then expanded into the report.

Key words: Derivatives, Contracts for differences (CFDs), Single Stock Futures (SSFs), Hedging, Investments, Trading, Financial Markets, Business Venture.

2. **Introduction**

This report is proposing a new business venture that focuses on using the Contracts for Differences (CFDs) to grow a business. The business model proposed can be used in an established business or alternatively, in a new business. For the purposes of this report, the new business is assumed.

There are various ways of operating in the financial markets, be it shares, bonds, options, credit swaps, single stock futures (SSFs), foreign exchange (Forex), share instalments, warrants, tax free investments, covered calls, exchange traded products/notes (ETNs), contracts for differences (CFDs) (Standard Bank, 2022). These products are accessed via platforms belonging to stockbrokers such as Standard Bank (Standard Bank, 2022), Absa Bank (Absa, 2022), First National Bank (FNB, 2022), Investec Bank (Investec, 2022), to name a few. SSFs, Forex, Warrants, covered calls and CFDs are highly geared derivative instruments. Geared instruments deliver gains or losses that are significantly higher than the underlying share ((Kuprianov, 1995) (Veneziani, 2011)). As such, they should be researched and traded very carefully.

The decision to trade CFDs over other derivatives are as follows:

- The CFDs do not expire (Lee & Choy, 2014).
- Transaction costs for CFDs are much lower than for example, shares and SSFs (Standard Bank, 2022).
- An investor can also get dividends on CFDs (Standard Bank, 2022).

There is a concern of poor regulation on the part of countries in which they are traded and other countries such as Brazil and United States of America (USA), have banned trading in CFDs in order to protect investors (Mizrahi, 2017). See Figure 1 below for countries where CFDs are allowed to be traded and where they are banned.

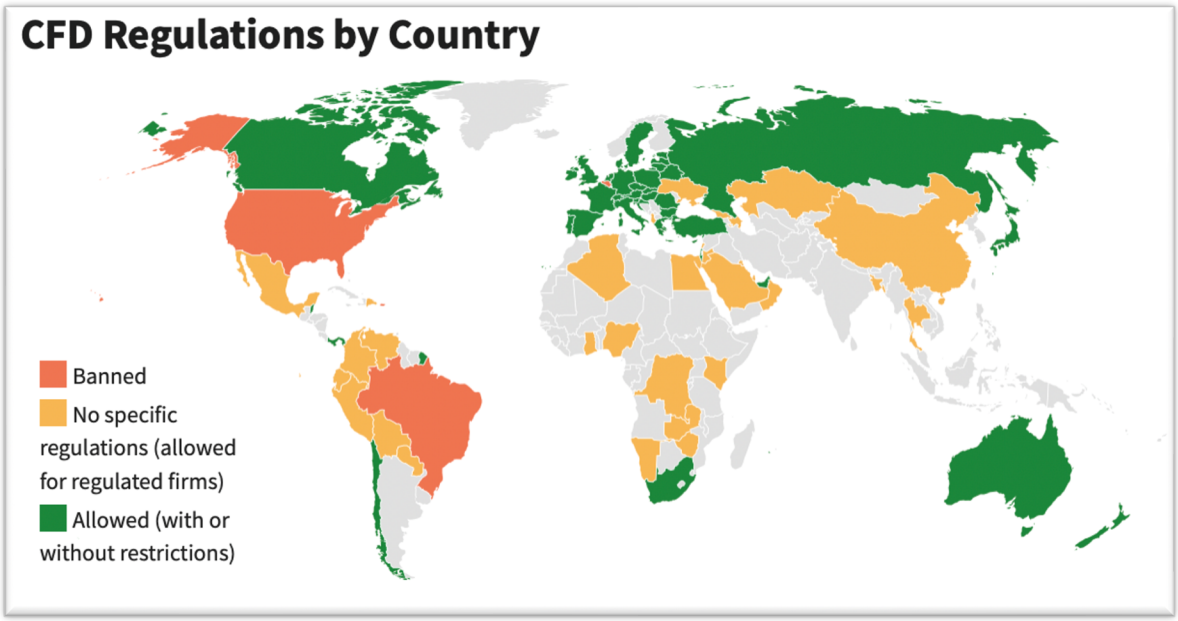


Figure 1: CFD Regulation by Country, (Mizrahi, 2017)

2.1. Problem

The new venture needs to grow faster than the traditional investment vehicles such as equities. However, the equities are not leveraged. Thus, the growth through equities are viewed as being very slow. The growth vehicle identified for the new venture is through the CFDs as they can enable and provide faster growth through their leverage. It must be noted that CFD instruments are very risky in that while the trader/investor can make huge profits, they can also make huge losses. Stop losses and price trigger alert tools on the trading platform provided by various financial services providers, are good for managing risk, maximising profits and minimizing losses.

Sub-Problem 1: The new business venture is facing growth challenges and intends to achieve the growth using CFDs. CFDs present both opportunities for gains if they are properly researched and executed; alternatively, they can be pitfalls for losses if not properly managed.

Sub-Problem 2: CFDs can be exploited for profits, especially if they can be thoroughly researched and open trades are closely managed.

Stress management when trades go against the chosen position of the investor needs to be implemented so that trades are not closed too late or too late. Besides one being able to be tenacious with nerves of steel, risk management tools and techniques can come in handy when the investor/trader is away from the screen or when they are faced with fast moving markets and there are numerous events taking place within a short space of each other.

a. Objective

The objective of this business venture proposal report is to grow a business using CFDs.

b. Research Questions to be Addressed while Pursuing Above Objectives

a) Can a company achieve growth using CFD derivatives in light of their inherent risks while simultaneously avoiding financial ruin?
b) What are the best methods of protecting profits from trading activities so that they are not erased by the reversal of active positions but still easily available for potential new positions that might appear at a short notice.

Hypotheses:

Null Hypothesis (H_0): There is no relationship between the returns from derivatives investments/trading and potential business growth based on the use of derivatives, i.e., Returns < 0.

Alternative Hypothesis (H_A): There is a significant relationship between returns from derivatives investments/trading and potential business growth based on the use of derivatives, i.e., Returns > 0.

3. Literature Review

3.1. Popular Business Growth Strategies

Business growth can be achieved in various ways, which are briefly described below. The following are popular methods of business growth for small businesses that have been tried over many years, each with its own advantages and disadvantages. The report then ventures into the CFDs business growth method proposed for this research project.

3.1.1. Bootstrap Finance

Starting a business with modest savings personal savings, credit card, second mortgage is possible. It is also possible to grow through these business initiatives by means of retained earnings or very little debt, without having to raise equity finance. The biggest challenge for entrepreneurs is not that they cannot raise financing to grow their businesses, but it is having the wits and hustle to do without it. Obtaining finance from investors too early can hinder the entrepreneur's discipline and flexibility. This early finance from external investors can also make the entrepreneur vulnerable to being removed by the investors that have significant equity and board representation, thus the entrepreneur will be at their mercy as they start to question his/her ability, strategy or execution once the entrepreneur wants to change strategy as the entrepreneur adopts a try-it and fix-it approach, which is typical of start-ups. Successful bootstrappers take care to expand at a rate they can control and afford (Bhide, 1992).

3.1.2. Financing Growth Through Debt

In a study conducted in Ghana, small business growth is mostly financed through external debt characterised by short-term maturity. It is also noted that small business in Ghana contribute to about 80% of corporate employment. However, they still experience high failure rate. Excessive short-term debt by small unlisted firms leads to their demise. They limited. To other alternative finance methods due to their size and risk of failure. Although the firms benefit from reduced tax

as interest payments on the loans are tax deductible, their life spans are significantly reduced if the debt becomes cumbersome and they cannot service their debt repayments. The high debt ratio of short-term debt over total debt makes the small unlisted firms vulnerable to changes in economic conditions and potential financial crises (Yartey, 2011).

3.1.3. Venture Capitalists

Sometimes going to venture capitalists too early can dash an entrepreneur's dreams as they fail to convince the financiers that their businesses are worth investing in. Sometimes failure to convince the venture capitalists could be the inability to satisfy their exacting requirements (Bhide, 1992).

Because small businesses that attract private equity funders are informationally opaque, their contracts are usually complex and quite structured compared to public markets that fund large companies than an informationally transparent using generic contracts (Berger & Udell, 1998).

Because small businesses have high informational opacity, they are prone to suffer a disproportionate loss of funding when there are shocks in the financial markets, macroeconomic environment, changes in public policy, monetary policy shocks, credit crunches and the consolidation of banks (Berger & Udell, 1998).

When there re crises in the banking system such as collapse of banks and credit shortfalls, small businesses suffer due to a reduction in credit funding as they try to reduce their credit risk exposure and rebuild their capital equity ratios to acceptable levels. The nature of informationally opaque small businesses means that they will be the first to suffer as the banks reduce their credit risk exposure. Mergers and acquisitions of banks also lead to reduced credit flows to the small businesses (Berger & Udell, 1998).

The other factor that affects small business funding is the intertwining of the finances of the entrepreneur with the finances of the firm, as the lenders also look into the assets owned by the entrepreneur as part of the collateral. Usually, the newly established entrepreneur has more assets and payment history than the

business, hence the lenders will investigate the entrepreneur's personal assets and payment history before approving the credit to fund the entrepreneur (Berger & Udell, 1998).

3.2. Background on CFDs

CFDs were introduced into the financial markets in the 1990s ((Lee & Choy, 2014), (Corbet & Towmey, 2014a; 2014b)). Trading of CFDs have since been introduced globally in other markets around the world, such as south Africa, Australia and Canada. Although they were welcomed in many other countries, they have since been banned in countries such as United States of America, Brazil and Alaska (see a map of CFD markets in the Introduction section) (Mizrahi, Finance Magnates, 2017). In Australia, the CFDs have their own board listing, a decision that was made to separate them from the main board of common shares (Corbet & Towmey, 2014b).

CFDs are risky just like any other derivatives instruments, the main differences is that they pay dividends (Standard Bank, 2022), they do not expire (Lee & Choy, 2014), and they are more affordable to trade in (Standard Bank, 2022). It is for these three reasons that the CFDs were chosen over other types of CFDs for this research.

3.3. Defining CFDs and The Different Types?

3.3.1. Defining a CFD

"A CFD can be described as a leveraged financial instrument whose value is based on the future price change ("the difference") of an asset." (Corbet & Towmey, 2014a).

" Contracts for difference are a recent financial derivative that allows an investor to pay the counterparty the difference between the current value of the contract and the value when entering the contract, with reference to an underlying security price (e.g. commodities, indices or shares). If the current value of the contract is

higher (lower) than the value when entering the contract, the long (short) position holder receives (forgoes) the difference." (Lee & Choy, 2014).

3.3.2. Types of CFD

There are various types of CFDs such as:

a) Currency CFDs – these are based on the currency trading pairs. For example, US Dollar and British Pound ($/£).
b) Indices CFDs – these are based indices that aggregate the markets. For example, Dow Jones Industrial Average (DJIA), S&P 500 and Nasdaq.
c) Commodity CFDs – these are based on natural resources such as gold, platinum and brent crude oil.
d) Cryptocurrency CFDs – these are based on crypto currencies, for example, Bitcoin and Ethereum.
e) Shares CFDs – these are based on the shares of companies listed on the stock exchange.
(Standard Bank, 2023) (CMC Markets, 2023) (Sharenet, 2023)

The main differentiator between the above CFDs is that the shares CFDs pay dividends, while the rest of the CFDs do not pay the dividends. This is one major advantage of the shares CFD as they are based on companies that generate revenue by selling products and/or services and are therefore able to pay dividends.

3.4. Market Size for CFDs

The United Kingdom CFD market alone was estimated to be worth £602 billion in notional amounts in 2009 (Lee & Choy, 2014). The market value for CFD's globally was measured at US$ 5 754.63 million in 2020 and projected to is reach US$ 7 647.60 million by 2029, growing at an annual compounded rate of 3.10% (Absolute Markets Insights, 2022).

3.5. Transaction Costs

Transaction costs, some as excessive as 32% depending on the type of account, are experienced by the traders (Hrebacka, 2022). Therefore, the traders need to choose their financial services provider for CFDs very carefully. So, it is very important to choose a suitable financial service providers, not just on the costs or user friendliness of the service provider. In South Africa, investors are spoilt for choice when selecting a service provider. The likes of PSG , FNB, Investec, Nedbank, Standard Bank, etc., provide platforms for trading and/or investing in CFDs and other instruments (PSG, 2023) (FNB, 2023) (Investec, 2023) (Nedbank, 2025) (Standard Bank, 2023).

3.6. Australian Approach to CFDs

CFDs were introduced to the Australian markets in 2002, but by 2007, they were listed on their own exchange in the bid to improve transparency of trading and investment activities on the main exchange; also, the CFDs muted the volatility of the underlying shares on the main exchange and the volatility was increased again after the CFDs were given their main board. The other reason is that CFDs are viewed as a short term speculative investment (trading) that is usually associated with high volatility (Corbet & Twomey, Quantifying the Effects of the Inclusion and Segregation of Contracts for Difference in Australian Equity Markets, 2014b).

3.7. Timing the Markets Around Earnings Announcements

There is another phenomenon where traders try to time the trading of the markets around companies' earnings announcements, typically two days before and lasting up to five days after the earnings announcement (Schroff, Meyer, & Burghof, 2013). The expectation with this type of trader behaviour is that the companies will announce to the markets unexpected results that will make the share price move excessively, either long or short, in the desired direction of their derivative position so that they can make instant profits. This is called optimism

bias. However, it is well known that trying to time the markets is very difficult, if not impossible.

3.8. Performance of CFD Traders for Australian Markets

Lee and Choy (2014) investigated the performance of CFD traders for the Australian market and found that traders earn small profits for daily trades but lose money on their trades that are open for periods extending from a month to a year mainly due to financing costs of these open positions. Lee and Choy (2014) also point to the fact that there is plenty of literature revealing poor individual investor investment returns but little research has been done on the performance of the derivatives trading. However, it can be safely concluded that the returns of individual investors for the CFDs, and generally all the derivatives markets trading has also been poor, perhaps even by an order of magnitude due to the leverage in the derivative products. This view is consistent with findings that investors incurred substantial losses in options trading (Bauer et al (2009), as cited in (Lee & Choy, 2014)). The substantial losses are attributed to poor market timing and financing costs of the open positions.

3.9. Taking Lessons to Improve on Future Trades

Nicolosi, Peng and Zhu (2009) argue that active traders that have an outlook of about a month have better risk adjusted portfolio returns than traders that have an outlook of about five days. Also, they found that investors who perform more transactions learn more from their mistakes by improving on their stock selections and the unique stock selection from both their unsuccessful and successful trades, with better portfolio returns as their experience improves and they learn from their past lessons.

3.10. Profitability of CFDs

Venter (2008) found that the profitability of trading CFDs on the Johannesburg Stock Exchange (JSE) is possible but it is based on the low brokerage fees and the skill of the trader. He analysed data of forty months and found that the trader

needs to pick the tock with a probability of 77% for the brokerage fee of ½ percent and probability of 69% for a brokerage fee of ¼ percent in order to be profitable (Venter, 2008). In essence, the trader who is timing the markets needs to be correct 75 percent of the time. Venter (2008) also found that high skills are needed to avoid financial ruin when trading CFDs. However, the findings were that for highly volatile stocks, less skills are needed to be a successful CFD trader (Venter, 2008). Since practice makes perfect, trading skills can only be acquired by engaging in the craft and business of trading actively in the market, with real money, since a demonstration account won't have the same feelings when losses or gains happen.

Lee and Choy (2014) studied the performance of CFD traders on the Australian Stock Exchange and found that the but trades outperformed the sell trades over one day holding periods, inclusive of the costs. The CFD traders also outperform the underlying stocks for holding periods of up to a week. For holding periods of one month and more, the investors earn negative returns due to financing costs.

Nicolosi, Peng & Zhu (2009) argue that as traders investors trade more actively, they do learn from the trading experience and the subsequent performance of their portfolios improve with time.

3.11. Automated Trading

Automated trading has been attempted by feeding historical data into a program and then using mathematical formulae to try and predict the future price movement on CFDs (Zengeler & Handmann, 2020). The experiment was done on a demo account that does not use real money and it was done using one stock only for a limited period of twenty days but using data for only ten days (Zengeler & Handmann, 2020). Although the experiment showed that the automated trading software can outperform the market when trading on the demonstration CFD account, the results cannot be relied upon as the trading period was limited; they only used one stock; and they did not use real money (Zengeler & Handmann, 2020).

Pauna (2018) demonstrates a number of fascinating discoveries using automated trading and high frequency algorithmic trading:

a) The narrow stop loss cannot be used with automated and/or high frequency trading. The probability of losses exceeds 50%.
b) The number of automated trades that result in a profit are very few for a risk-reward ratio of more than 1.
c) For the risk-reward ratio of 1:15 or more and wider stop losses, the number of trades that result in profits increase and the losing trades decrease.
d) The trades that have higher risk-reward ratio and are held for longer periods result in more number of profitable trades and higher profits. However, the longest trading period was capped at one month.
(Pauna, 2018).

The capping of holding period of one month from Pauna (2018) findings is consistent with the findings of Lee and Choy (2014).

It follows from the two studies above that automated trades have a role to play that can be used profitably for the proposed venture. Human decision making cannot be ruled out though; when things go wrong, it is the management of the investment firm that must explain and the blame cannot be passed onto the computer algorithms. Same goes when thigs are going well, it is the management of the investment house that will get credit for prudent decisions.

3.12. Risky and Unethical Behaviours of Companies Shorting Listed Stocks

Shorting listed stocks can be abused, and the abuse can raise the ire of regulators. Viceroy Research has been involved in leaking alleged negative stories of various listed companies. What appears to be the modus operandi of Viceroy Research is that they take short positions on a stock of a certain company they are targeting and have been doing research on, and then release the negative news about that company to the public. In 2018, Capitec was implicated

in the research Viceroy did on the companies (News24, 2018). A report on Nepi Rockcastle was released a few months later (Thompson & Anderson, 2018). Viceroy Research hit list is a global one. In 2020, a German financial services firm, Grenke, also suffered a similar fate when a report regarding fraud was published (Shead, 2020). When other investors read the news published by Viceroy Research, they sell almost *en masse* and the share price drops significantly; this then precipitates large profits on Viceroy Research's short positions.

When Viceroy Research broke the story of Steinhoff fraud in 2016, it was hailed in the markets as a hero and gained instant credibility as the story was found to be true, their later reports have made it a nemesis of the industry as it was fined R50 million by the Financial Services Conduct Authority (FSCA) (BusinessTech, 2021). Although it was not disclosed which derivative instruments were used by Viceroy Research in shorting the stocks of various companies they were purporting to report on, the effect and/or gain would have been the same as the intent of the reports were to collapse the share prices while gaining the profits.

4. Methodology

Publicly available data will be collected from the websites of various investment houses and hedge fund managers. The data will be assessed if working with derivative is a viable business model, based on the investment returns from the hedge fund managers and other investment houses. A second set of data from the listed companies that have exposure to derivatives hedging exposure will also be collected to see the trends and potential opportunities that can feed into the business model of the venture for which this report is written. Once the data is analysed and patterns and opportunities are apparent, the business model canvas will then be constructed, and a business model will be built from there.

The research methodology to be used for this report will be quantitative research techniques. The investment world is about currency and returns in percentages outcome versus input. The financial statements of companies are focused on currency. Assets must be bigger than liabilities and profits must be bigger than zero for the company to survive. In percentages of returns on investments or profit growth, the larger the percentage, the better the investment firm performs. The bigger the profits or the difference between assets and liabilities, the more thriving the company is.

The investment houses and hedge funds publishing their investment performance publish their performance as a marketing tool for more investors to come and invest their funds with them. They also want to appear superior to their competitors, hence they hope their published investment performance will attract more investors to their hedge fund and/or investment house.

Listed companies are required to release financial statements at least twice a year so that investors can whether they remain invested, sell their investments, or buy new investments. From the financial statements, investors can garner if the company is worth investing in by assessing its ability to pay its debt, strength of the cashflow, and also to compare its performance with its peers and the industry at large (Barnes, 1987). Based on the ratios of the financial statements of respective companies, investors can decide if they will short the stock (sell the derivative) or go long (buy the derivative) on it. The dividend discount and Gordon

growth models are used calculate the intrinsic share price of a listed company and compare it with the actual share price trading at the time of model calculations. There are minor variations between the models but they generally calculate similar outcomes (Foerster & Sapp, 2005). These two models are used to determine if the shares to be traded are under-priced or overpriced. If the under-priced share is trading at a value lower than the calculated, the trader/investor would typically buy such a share. If the share price is trading higher than the calculated intrinsic value from either model, then it is deemed overpriced and the trader/investor would typically sell such a share, provided other requirements defined buy the trader/investor are also met (Greenwald, Kahn, Bellissimo, Cooper, & Santos, 2021). This method is used for the stocks that declare dividends on a regular basis to decide which of the stocks that regularly declare dividends should be invested in.

Charting is one of the tools used to try and predict the movement of the share price so that entry and exit can be determined much earlier. This method involves looking at the patterns in the chart movement as they are believed to repeat themselves over time (Suresh, 2013). This method can assist in making trading/investment decisions where the other two methods described above perhaps do not give a clear direction or where the share price has made a sharp movement from its normal trend, such as the impact on the announcement of lockdown in March 2020.

4.1. Ethical Considerations

The nature of this research does not trigger any ethical issues as it does not involve gathering data from human participants. The research will be based on publicly available financial and investment information from investment houses, hedge fund managers and annual integrated and listed companies, published articles based on the topic and publicly available information on derivatives, especially CFDs.

5. Results Analysis

5.1. Hedge Fund Managers

Having analysed the results from the fund managers, the performance from the hedge funds is generally good with performance able to be sustained over several years. Peregrine shows the highest annual growth of the data collected for the hedge funds with 133.81% being the highest annual return amongst its peers, with the lowest annual return of 0.59%. The positive months of the hedge fund was at 85.27%, that is, 10 months and 7 days in a year.

The other competitors against Peregrine are Sanlam with highest annual return for a hedge fund at 32.47%, with the lowest annual return of -19.32). Laurium Hedge Funds with highest annual return of 69.8% and the lowest annual return of -33.6%. Oystercatcher had the highest annual return of 40.67 and lowest annual return of 6.61%. Anchor Hedge Fund showed its highest annual return of 28.64%, with the lowest being -13.30%. It is important to note that the lowest and highest annual returns for the hedge funds are not necessarily in the same year.

The surveyed results show a wide variation in returns from the hedge fund management companies. The interpretation of the results indicates that the skills and talent of personnel analysing the investment opportunities for the investment houses matter a great deal. Although it is a common knowledge that past performance is not guarantee to future performance, it would be misplaced for the investors to choose an investment house without considering their past performance for the assets under their management.

The major challenge with managing other people’s funds is managing significant or total loss towards investments that despite best efforts in research and analysis before investing their funds.

5.1.1. Hedge Funds Performance Data

Peregrine Pure SA Hedge Fund (Peregrine, 2022)

Net returns since inception

(as at 31 October 2022)

Net Return	Pure Hedge Fund	SA Multi Asset - Low Equity Category
Cumulative	7,233.74%	821.48%
Annualised	19.30%	9.56%

Figure 2: Peregrine Lifetime returns of their Pure SA Hedge Fund and comparison

Figure 2 shows Peregrine hedge fund's performance compared to a normal equity fund that is exposed to low equity in the market. Peregrine has outperformed the low equity multi asset consistently and by far.

Risk measures

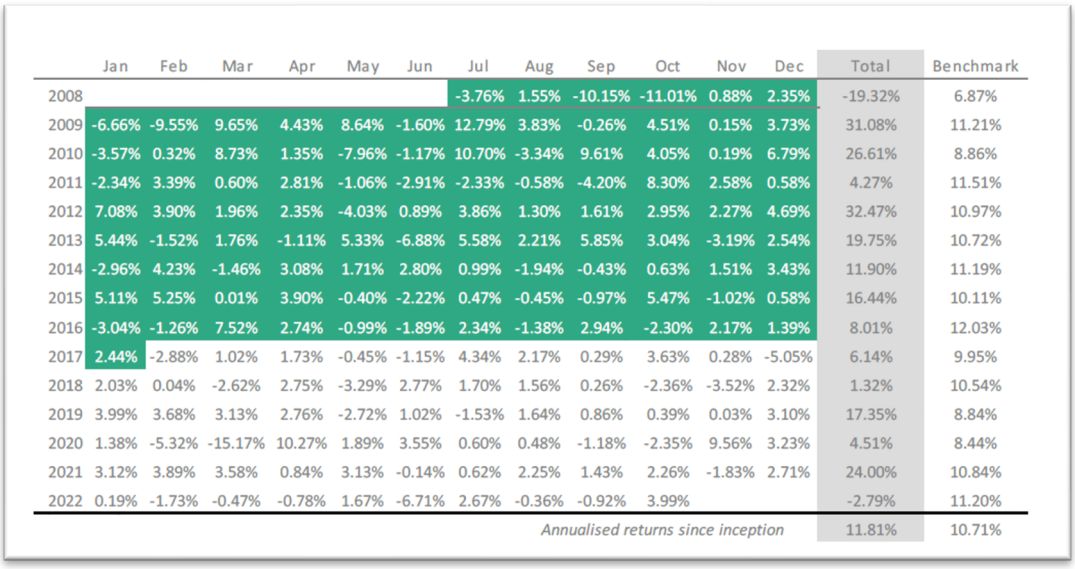
(as at 31 October 2022)

Risk Measures	Pure Hedge Fund	SA Multi Asset - Low Equity Category
Maximum cumulative drawdown	-4.86%	-22.91%
Highest Annual Return	133.81%	40.59%
Lowest Annual Return	0.59%	-3.33%
% Positive Months	85.27%	76.03%

Figure 3: Peregrine risk measures and comparison

In Figure 3, the hedge fund's percentage of positive months is higher than the low equity multi asset. Even at its low performance it still beats the benchmark fund.

Obsidian Sanlam Collective Investments Long Short Retail Hedge Fund (A2 Class) (Sanlam, 2022)



	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total	Benchmark
2008							-3.76%	1.55%	-10.15%	-11.01%	0.88%	2.35%	-19.32%	6.87%
2009	-6.66%	-9.55%	9.65%	4.43%	8.64%	-1.60%	12.79%	3.83%	-0.26%	4.51%	0.15%	3.73%	31.08%	11.21%
2010	-3.57%	0.32%	8.73%	1.35%	-7.96%	-1.17%	10.70%	-3.34%	9.61%	4.05%	0.19%	6.79%	26.61%	8.86%
2011	-2.34%	3.39%	0.60%	2.81%	-1.06%	-2.91%	-2.33%	-0.58%	-4.20%	8.30%	2.58%	0.58%	4.27%	11.51%
2012	7.08%	3.90%	1.96%	2.35%	-4.03%	0.89%	3.86%	1.30%	1.61%	2.95%	2.27%	4.69%	32.47%	10.97%
2013	5.44%	-1.52%	1.76%	-1.11%	5.33%	-6.88%	5.58%	2.21%	5.85%	3.04%	-3.19%	2.54%	19.75%	10.72%
2014	-2.96%	4.23%	-1.46%	3.08%	1.71%	2.80%	0.99%	-1.94%	-0.43%	0.63%	1.51%	3.43%	11.90%	11.19%
2015	5.11%	5.25%	0.01%	3.90%	-0.40%	-2.22%	0.47%	-0.45%	-0.97%	5.47%	-1.02%	0.58%	16.44%	10.11%
2016	-3.04%	-1.26%	7.52%	2.74%	-0.99%	-1.89%	2.34%	-1.38%	2.94%	-2.30%	2.17%	1.39%	8.01%	12.03%
2017	2.44%	-2.88%	1.02%	1.73%	-0.45%	-1.15%	4.34%	2.17%	0.29%	3.63%	0.28%	-5.05%	6.14%	9.95%
2018	2.03%	0.04%	-2.62%	2.75%	-3.29%	2.77%	1.70%	1.56%	0.26%	-2.36%	-3.52%	2.32%	1.32%	10.54%
2019	3.99%	3.68%	3.13%	2.76%	-2.72%	1.02%	-1.53%	1.64%	0.86%	0.39%	0.03%	3.10%	17.35%	8.84%
2020	1.38%	-5.32%	-15.17%	10.27%	1.89%	3.55%	0.60%	0.48%	-1.18%	-2.35%	9.56%	3.23%	4.51%	8.44%
2021	3.12%	3.89%	3.58%	0.84%	3.13%	-0.14%	0.62%	2.25%	1.43%	2.26%	-1.83%	2.71%	24.00%	10.84%
2022	0.19%	-1.73%	-0.47%	-0.78%	1.67%	-6.71%	2.67%	-0.36%	-0.92%	3.99%			-2.79%	11.20%
													11.81%	10.71%

Annualised returns since inception

Figure 4: Obsidian Long Short retail hedge fund lifetime returns (A2 Class)

Figure 4 shows that the Obsidian fund has a few periods in which it underperforms its chosen benchmark. This is a good indication and reminder that there are times that the investment house's best efforts in market and investment research will not yield superior returns. However, the periods in which the Obsidian hedge funds outperformed its benchmark are more than the periods in which they underperformed. For as long the investment house outperforms the market more than it underperforms it, the investors will keep their invested funds with their chosen investment manager.

Figures 5, 6 and 7 below show Laurium's three hedge funds performance against their respective benchmarks. All the three hedge funds consistently outperformed their respective benchmarks since inception, circa 2008, 2009 and 2013, respectively.

LAURIUM HEDGE FUNDS Quarterly Commentary | September 2022
(Laurium Capital, 2022)

* Performance declaration for Laurium Long Short Prescient RI Hedge Fund	FUND	BENCHMARK (STEFI)
Year to date	+13.3%	+3.6%
Annualised return since inception	+10.9%	+6.5%
Cumulative return since inception	+330.3%	+143.6%
Rolling 12 months	+22.0%	+4.6%
Highest rolling 1-year return (since inception)	+45.8%	
Lowest rolling 1-year return (since inception)	-24.0%	
Fund inception date	01 August 2008	

Figure 5: Laurium Hedge Funds performance and comparison (a)

* Performance declaration for Laurium Market Neutral Prescient RI Hedge Fund	FUND	BENCHMARK (STEFI)
Year to date	+12.4%	+3.6%
Annualised return since inception	+10.5%	+6.3%
Cumulative return since inception	+294.7%	+132.1%
Rolling 12 months	+17.9%	+4.6%
Highest rolling 1-year return (since inception)	+31.9%	
Lowest rolling 1-year return (since inception)	-10.8%	
Fund inception date	01 January 2009	

Figure 6: Laurium Hedge Funds performance and comparison (b)

* Performance declaration for Laurium Aggressive Long Short Prescient QI Hedge Fund	FUND	BENCHMARK (STEFI)
Year to date	+18.4%	+3.6%
Annualised return since inception	+16.0%	+6.1%
Cumulative return since inception	+326.1%	+78.3%
Rolling 12 months	+29.2%	+4.6%
Highest rolling 1-year return (since inception)	+69.8%	
Lowest rolling 1-year return (since inception)	-33.6%	
Fund inception date	01 January 2013	

Figure 7: Laurium Hedge Funds performance and comparison (c)

OYSTERCATCHER RCIS LONG SHORT RETAIL HEDGE FUND (Oyster Catcher Investments, 2022)



OYSTERCATCHER RCIS LONG SHORT RETAIL HEDGE FUND — 30 SEPTEMBER 2022

MONTHLY RETURNS (NET OF FEES)

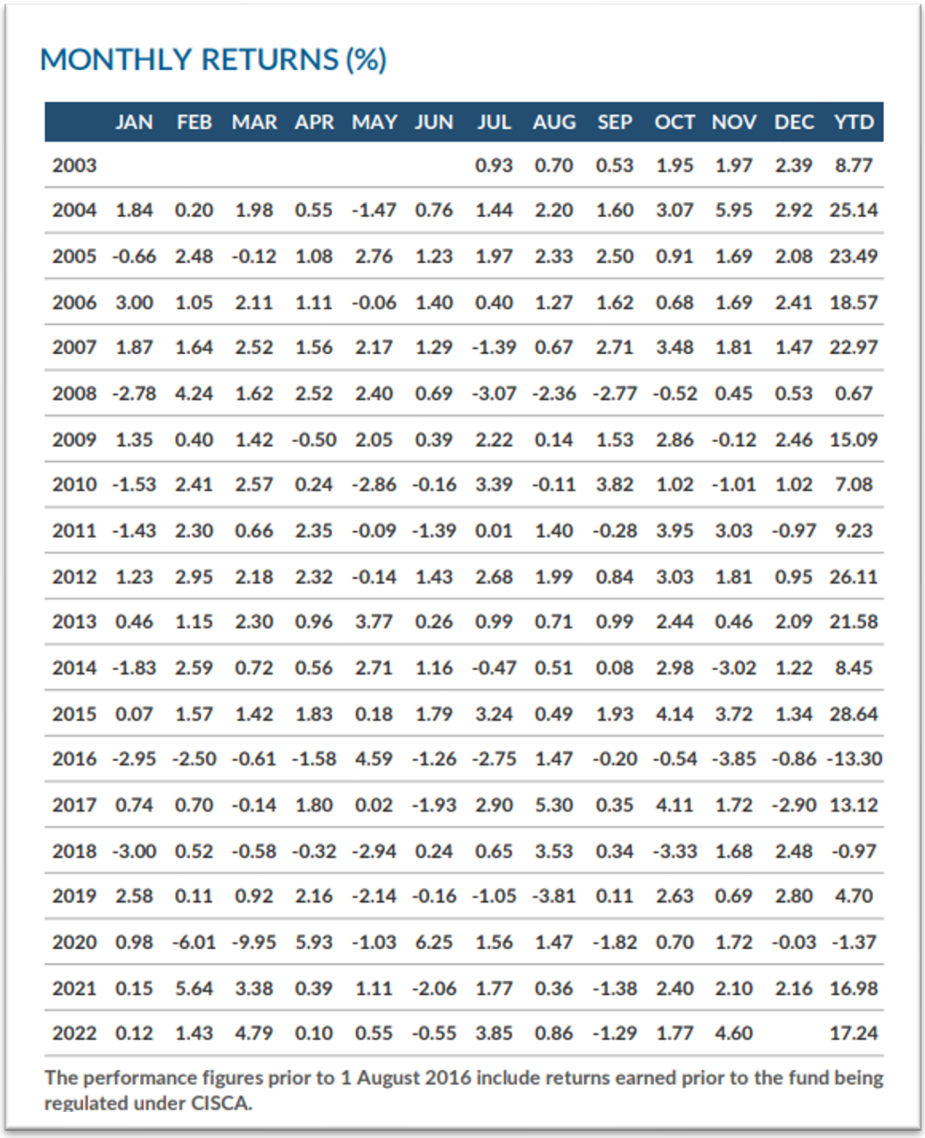
	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	YTD	BM
2019										0.50%*	-0.13%	6.22%	6.61%	3.14%
2020	-1.16%	-9.63%	-15.70%	12.51%	1.75%	9.06%	5.00%	2.41%	-2.06%	-2.05%	13.03%	6.59%	16.85%	7.00%
2021	6.39%	6.00%	2.47%	1.92%	1.76%	-1.33%	2.99%	2.43%	-1.91%	4.45%	2.86%	6.99%	40.67%	29.23%
2022	1.83%	1.81%	0.02%	-2.62%	0.64%	-8.64%	4.66%	-1.74%	-4.40%				-8.73%	-10.06%

* Please note that the returns for the month of October were achieved from 25 October 2019 - 31 October 2019

Figure 8: Oystercatcher Long Short Retail Hedge Fund Lifetime returns

Oystercatcher results shown in Figure 8 above show very good returns albeit they are new in the market. The snapshot of the results were taken before they could publish the results of 2022 calendar year, hence the missing last three months of that year.

ANCHOR STABLE SNN RETAIL HEDGE FUND (Anchor Capital, 2022)



MONTHLY RETURNS (%)

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	YTD
2003							0.93	0.70	0.53	1.95	1.97	2.39	8.77
2004	1.84	0.20	1.98	0.55	-1.47	0.76	1.44	2.20	1.60	3.07	5.95	2.92	25.14
2005	-0.66	2.48	-0.12	1.08	2.76	1.23	1.97	2.33	2.50	0.91	1.69	2.08	23.49
2006	3.00	1.05	2.11	1.11	-0.06	1.40	0.40	1.27	1.62	0.68	1.69	2.41	18.57
2007	1.87	1.64	2.52	1.56	2.17	1.29	-1.39	0.67	2.71	3.48	1.81	1.47	22.97
2008	-2.78	4.24	1.62	2.52	2.40	0.69	-3.07	-2.36	-2.77	-0.52	0.45	0.53	0.67
2009	1.35	0.40	1.42	-0.50	2.05	0.39	2.22	0.14	1.53	2.86	-0.12	2.46	15.09
2010	-1.53	2.41	2.57	0.24	-2.86	-0.16	3.39	-0.11	3.82	1.02	-1.01	1.02	7.08
2011	-1.43	2.30	0.66	2.35	-0.09	-1.39	0.01	1.40	-0.28	3.95	3.03	-0.97	9.23
2012	1.23	2.95	2.18	2.32	-0.14	1.43	2.68	1.99	0.84	3.03	1.81	0.95	26.11
2013	0.46	1.15	2.30	0.96	3.77	0.26	0.99	0.71	0.99	2.44	0.46	2.09	21.58
2014	-1.83	2.59	0.72	0.56	2.71	1.16	-0.47	0.51	0.08	2.98	-3.02	1.22	8.45
2015	0.07	1.57	1.42	1.83	0.18	1.79	3.24	0.49	1.93	4.14	3.72	1.34	28.64
2016	-2.95	-2.50	-0.61	-1.58	4.59	-1.26	-2.75	1.47	-0.20	-0.54	-3.85	-0.86	-13.30
2017	0.74	0.70	-0.14	1.80	0.02	-1.93	2.90	5.30	0.35	4.11	1.72	-2.90	13.12
2018	-3.00	0.52	-0.58	-0.32	-2.94	0.24	0.65	3.53	0.34	-3.33	1.68	2.48	-0.97
2019	2.58	0.11	0.92	2.16	-2.14	-0.16	-1.05	-3.81	0.11	2.63	0.69	2.80	4.70
2020	0.98	-6.01	-9.95	5.93	-1.03	6.25	1.56	1.47	-1.82	0.70	1.72	-0.03	-1.37
2021	0.15	5.64	3.38	0.39	1.11	-2.06	1.77	0.36	-1.38	2.40	2.10	2.16	16.98
2022	0.12	1.43	4.79	0.10	0.55	-0.55	3.85	0.86	-1.29	1.77	4.60		17.24

The performance figures prior to 1 August 2016 include returns earned prior to the fund being regulated under CISCA.

Figure 9: Anchor Stable SNN Retail Hedge Fund Lifetime Returns

Although Anchor hedge fund show a few poor performances of negative returns and a lot more positive returns in Figure 9 above, they did not include a comparison with their benchmark. Therefore, it cannot be said if they are good hedge fund managers. However, their performance returns are in line with Obsidian hedge fund managers.

The data analysis from hedge fund managers and investment houses indicate that there is evidence of consistent performance in double digits for the portfolios under their management (Returns > 0). Therefore, the alternative hypothesis that

"there is a significant relationship between returns from derivatives investments/trading and potential business growth based on the use of derivatives" is proven.

5.2. Financial Statements from Listed Companies

A selected Johannesburg Stock Exchange (JSE) listed companies' financial statements were analysed to see what amounts the companies allocate towards hedging to protect their overall exposure in the marts. These are Capitec, First Rand, Gold Fields, Growthpoint, Harmony, Hulamin, Investec, MPact, Truworths and Woolworths. The companies operate in various fields such as banking/financial services, mining, property, recycling and packaging, retail, and heavy industries. Irrespective of the sector in which companies operate, they use hedging strategies as part of their risk management and to try and boost the financial performance.

The results from the sampled companies' financial statements show that in 2021 reporting period, only 3 out of 10 companies showed Assets minus Liabilities being greater than zero ($A - L > 0$). For 2022 reporting period, 5 out of 8 companies showed $A - L > 0$, with two companies having not released their results at the time of writing this report. It is not clear if the companies apply these hedging strategies in-house themselves or if they use the services of hedge fund managers. Based on the poor hedging outcomes from the companies' financial statements, it can be safely assumed that they use their in-house personnel in the finance departments.

Contrasting the derivatives trading results of the hedge fund managers with those of the companies' do-it-yourself (DIY), it is clear that the companies need help to ensure that they don't lose the crucial capital on the derivatives hedge trading.

This is the point where the intent of this business venture proposal becomes very clear, that is, to address the issue where companies need growth using the derivatives. In the case of this business venture, the derivative instrument to be

used is the Contracts for Difference (CFD). As previously indicated in the literature review, the CFD has low capital requirements with the added benefit of dividends, only when in a long position though.

Individual Companies Hedging Performance Results

	FY22 '000	FY21 '000	FY20 '000	Share Price at Financial Year End	Share Price at Financial Year End
Capitec Ltd (Rands) (Capitec Bank, 2022)					
Derivative Assets	14,586	28,011	-	**28/02/2022**	**28/02/2021**
Derivative Liabilities	33,848	65,589	-	2,074.35	1,338.75
Assets - Liabilities	(19,262)	(37,578)	-		
FirstRand Ltd (Rands) (FirstRand, 2022)					
Derivative Assets	65,667	66,461	115,596	**30/06/2022**	**30/06/2021**
Derivative Liabilities	64,547	68,169	130,274	62.37	53.59
A - L	1,120	(1,708)	(14,678)		
Gold Fields Ltd (US Dollars) (GoldFields, 2022)					
Derivative Assets	5.1	113.3	-	**31/12/2021**	**31/12/2020**
Derivative Liabilities	6.8	29.1	-	174.14	137.57
A - L	(1.7)	84.2	-		
Growthpoint Ltd (Rands) (Growthpoint, 2022)					
Derivative Assets	2,492	814	-	**30/06/2022**	**30/06/2021**
Derivative Liabilities	817	1,995	-	12.35	14.90
A - L	1,675.0	(1,181.0)	-		
Harmony Ltd (Rands) (Harmony, 2022)					
Derivative Assets	40	126	-	**30/06/2022**	**30/06/2021**
Derivative Liabilities	-	14	-	51.97	52.76
A - L	40.0	112.0	-		
Hulamin Ltd (Rands) (Hulamin, 2021)					
Derivative Assets	9,791	7,708	88,661	**31/12/2021**	**31/12/2020**
Derivative Liabilities	695	-	44,026	4.60	2.25
A - L	9,096.0	7,708	44,635		
Investec Ltd (UK Pounds) (Investec, 2022)					
Derivative Assets	1,617,240	1,714,743	-	**31/03/2022**	**31/03/2021**
Derivative Liabilities	2,537,303	2,190,487	-	97.51	43.27
A - L	(920,063)	(475,744)	-		

MPact Ltd (Rands) (MPact, 2021)					
Derivative Assets		3.3	0.5	**31/12/2021**	**31/12/2020**
Derivative Liabilities		6.5	12.8	35.03	13.85
A - L		(3.2)	(12.3)		
Truworths Ltd (Rands) (Truworths, 2022)					
Derivative Assets	29	5	-	**3/7/2022**	**3/7/2021**
Derivative Liabilities	29	34	-	48.86	56.57
A - L	-	(29.0)	-		
Woolworths Ltd (Rands) (Woolworths, 2022)					
Derivative Assets	370	46	-	**26/06/2022**	**26/06/2021**
Derivative Liabilities	53	379	-	57.19	54.39
A - L	317.0	(333.0)	-		

Table 1: Derivatives positions for a sample of companies generated from financial results of each company listed here.

Table 1 above shows that companies need assistance in using the derivatives for hedging their investments and financial positions. The glaring losses of their hedging positions could be that they execute the hedging themselves without the help of professionals who understand the markets deeply. It could also be the fact that the hedging positions are not for the same duration as the professional hedge fund managers.

The proposition of this business venture plan is to come in and assist other corporations in properly managing their hedge positions using the CFDs. The value proposition to the corporations is to use their investment research and expertise to make the hedge positions for their clients profitable. In addition to investing for the corporations, the business venture will target the individuals with high net worth. The details of the business model are explained in the next section and the Business Model Canvas in Appendix 1.

The data analysis from financial statements of the listed companies above indicate two findings:

a) There is a persistent use by listed corporations for using the derivatives to hedge their financial positions,

b) There are instances where the listed companies get the hedging right, they derive a profit from their hedging positions (A – L > 0 or Returns > 0).

Therefore, the alternative hypothesis that "there is a significant relationship between returns from derivatives investments/trading and potential business growth based on the use of derivatives" is proven.

The questions posed in the beginning of this report:

a) Can a company achieve growth using CFD derivatives in light of their inherent risks while simultaneously avoiding financial ruin?
b) What are the best methods of protecting profits from trading activities so that they are not erased by the reversal of active positions but still easily available for potential new positions that might appear at a short notice.

Have also been answered by the research above that a business can grow using CFDs and, the best methods of protecting profits are to close the trades within a month of opening them and to have stop losses in place.

6. Conclusion and Future Potential Research

The objective of this report was to develop a business venture proposal using Contracts for Differences (CFDs) to grow the business. CFDs were demonstrated to be more cost efficient compared to other derivatives like Single Stock Futures (SSFs) and also, had the added benefits of attracting the dividends. While the derivatives are riskier than the traditional shares, they have been proven to contribute positive returns as used by hedge fund managers.

Individual companies are also in favour of using derivatives in hedging their company shares or products that are prone to fluctuating market movements, like the commodities. Based on the data collected, it was shown that hedge fund managers are successful in their use of derivatives than the individual companies are. This finding was used as a rationale to further support the use of CFDs to grow the business, hence the business model and plan is developed in the following section below. The companies do not have to execute hedging strategies themselves; they can instead outsource the research and execution of the hedging strategies to this business venture once it has established itself and has proven itself over two to three years.

When managing clients' funds, it is important to put in place risk management tools and techniques such as placing stop losses on the open trades and to limit the life of each trade to no more than a month.

The period for the business to prove itself is very crucial when dealing with public and corporate clients' funds. Also, the Financial Sector Conduct Authority (FSCA) will need proof that the business venture is sustainable and has a proven business model before it grants it the licence to accept and manage public funds. The public and corporates that will be targeted by the business venture to hand over their hard-earned money will also want to have comfort in knowing that the business has been operating sustainably for a while and it has a license to handle other people's money. The aim is to use the founder(s) funds to start the business and build a track record over three years before applying for the Financial

Services Provider (FSP) license from the FSCA and subsequently start to market the company.

Future researchers could look into the following that was not covered in this report:

- Optimal insurance models for firms that use CFDs and other derivatives to protect against financial ruin in case of excessive losses in clients' funds.
- Quality of life and career longevity for professionals that use CFDs and other derivatives compared to professionals using equities only. This study could look into the stress levels experienced by the professionals managing derivatives investments.

7. The Business Plan

7.1. Business Goals/Objectives

The goals and objectives of this business is to establish itself as a leader in deploying CFDs to sustainably grow clients' investments.

Uniqueness of the CFDs Instruments

The CFDs are unique compared to other derivatives due to their low cost and their ability to attract dividends when in a long position, while being able to return superior leveraged returns compared to normal equities.

Business description

The proposed business venture is an investment house that uses CFDs to grow through the fees charged from assets under management from its clients. The funds obtained from the clients will be invested on the stock market. The fees will then be charged from the profits or positive returns. The fees will be agreed upfront with the clients with the primary fee being based on beating the benchmark plus inflation. The proposed primary fee proposed in the business model canvas is 2%, which is in line with asset managers that manage the usual non-leveraged equities. Peregrine (2023) charges 20% for beating the benchmark. It is proposed that the performance fee for this business venture be pegged at 15%, this should be enticing for the potential customers as they would keep a larger profit of their investments.

7.2. The Marketing Plan

The target market for this business venture is high net-worth individuals with at least R1 million to invest, small companies with at least R100,000 to invest, and lastly, large corporates that have a minimum of R10 million to invest.

7.3. Business Model

The model of this proposed venture was developed in a business model canvas (See Appendix 1). This section of the report is for elaborating and going deeper in describing the business model canvas. The business model is divided into various sections thus: Key partnerships, key activities, key resources, value propositions, customer relationships, channels, customer segments, cost structure and revenue streams. Each portion of the business model canvas will now be discussed in more detail.

7.4. Key Relationships

This is a type of business that will operate in financial services sector, and therefore will need to have a Financial Services Provider (FSP) licence. The **Financial Sector Conduct Authority** is the body that regulates companies that manages investments for other people and entities. Obtaining a license will enable the venture to receive funds for investment purposes for entities and individuals. This is a crucial springboard for operations and gaining of credibility and trust from the public.

The other key relationships are as follows:
South African Revenue Service – to ensure that the taxes are paid on behalf of the business venture and its clients.

South African Reserve Bank – for ensuring that foreign exchange limits are complied with for any investments and/or trades in foreign markets.

South African Banks – For transfer of the clients' funds for investment purpose with the business venture and withdrawals.

Computer Vendors – These suppliers will provide hardware to ensure that the business operates efficiently. Also, for warranty repairs on the computer equipment bought from them.

Software Vendors – The hardware needs software for the administration of the business and for executing the investments on the markets. The various software will be bought and licensed for ensuring the smooth running of the business.

Professional Membership Bodies – These bodies register the professionals for peer and industry recognition and also promote continuous professional development to ensure that their members stay abreast of industry norms and standards.

7.5. Key Activities

Once the regulatory approvals and the Financial Services Provider (FSP) license have been obtained from the FSCA, recruitment will commence so that **Business Development** and **Marketing** can put the business venture in the public eye and mind. Website development, advertising on the online platforms of various newspapers and social media campaigns will be the first line of marketing to be targeted before exploring radio, television and radio advertising.

The **Market Research, Investment/Trading Execution and Investment Performance Monitoring** teams will be involved in researching the sectors and markets in which the clients' funds can be invested. This will be a very crucial key activity for the business as it will ensure that investment risk is mitigated upfront before the clints' funds are committed into any investment. Research will be done locally and in other international markets as well to ensure a holistic view and understanding of the financial markets' trends and performance.

Due to the venture operating under a licence from the FSCA, governance structures within the business will be very crucial to ensure that the licence

conditions are adhered to. Regulatory reporting will also be done according to the requirements of the regulator, which is the FSCA.

7.6. Key resources

The key personnel as detailed in the business model canvas will be involved in executing the key activities as described above. Since the research will be desktop based, computers with software, online security software, and fast and reliable internet connection will be crucial for them to execute their duties. Administrators will play a crucial goal in ensuring governance is adhered to at all times and that the reporting is efficiently done when it is due.

7.7. Value Propositions

There are various hedge fund managers and investment managers that this proposed business venture will be competing with. To win some market share, the proposed venture will have to win the clients' hard earned investment funds by demonstrating that it can consistently and sustainably achieve superior returns similar or better than its competition, at a competitive fee. The sustainably consistent superior investment returns can be achieved through in-depth market research and minimizing trading costs by holding the investment for a long-term. However, where the financial markets go against our thoroughly researched positions, measures will be put in place to minimize losses against clients' funds.

7.8. Customer Relationships

The current ear in which we live relies heavily on the use of connected technology. Ease of accessibility is of great importance without the need to visit physical offices. Being able to self-service with the online login on the venture's website to view investments, also being able to phone in or send an email to get some basic information will be the service offering for the clients to engage with

the company. Although connected services are preferred and will be encouraged and also made easily accessible, it is acknowledged that there will be some clients that may prefer a face-to-face engagement, especially for the first time and on an occasional basis. These personal engagements will also be accommodated for the clients that prefer them.

7.9. Channels

We aim to reach our clients through advertising on the newspapers' websites. Radio and television will also be used for advertising to try and capture the potential clients. The business venture will also have its own website where the value proposition is well documented. Whenever an investment conference is held by investment houses in the country, the management of this venture will endeavour to be part of it so that it can source assets to manage from the public, companies and other investment houses that would like to use our expertise.

7.10. Customer Segments

The target markets for the business venture will be as follows:

- Individuals with R 500,000.00 to invest.
- Small companies with R 1,000,000.00 to invest, and
- Large corporates with R 10 million to invest.

The reason for segmenting the target market in this fashion is that when it comes to individuals, the higher the amount needed means that they have a less chance of needing the funds invested with the firm, thus committing the funds for longer in the investment. The minimum required capital will also ensure that the number of clients is not a lot and the administration costs are not exorbitant. For the small businesses, it is expected that they would need as much capital as possible to ensure that operations are funded. Therefore, the minimum investment capital required from the small businesses is kept at a minimum. For large corporates, the required capital to be invested is larger as their needs are also higher.

7.11. Cost Structure

The major costs for the business venture will be from the FSP license fee application process, business and marketing costs (which include travel costs and vehicles), business insurance for the vehicles, office rental fees, office equipment (computers, etc.), software telecommunication costs (voice and data), salaries, training costs and professional member ship fees. The assumptions for these are detailed in the business model canvas in Appendix 1.

7.12. Revenue Streams

Based on the proposed business model, the primary revenue stream for the proposed business venture is the fees of the assets under investment from clients' funds. Other revenue streams will be identified as the business expands.

8. Appendix 1 – Business Model Canvas

<table>
<tr>
<td rowspan="2"><u>Key Partnerships:</u>
Financial Sector Conduct Authority
South African Reserve Bank (SARB)
South African Revenue Service (SARS)

South African Banks

Computer Vendors

Software Vendors
Professional Membership Bodies</td>
<td><u>Key activities:</u>

Business Development

Marketing

Market Research
Investment/Trading Execution
Investment performance monitoring
Governance to Regulatory Bodies Standards

Regulatory Reporting</td>
<td rowspan="2"><u>Value Propositions:</u>
Returns that surpass benchmark +
inflation at lower capital outlay.

In-depth market research before
committing clients' funds.

Minimizing trading costs by investing
over a long term so that investment
returns are optimized.

Our risk management ensures that
losses are minimized by utilizing stop
losses.</td>
<td><u>Customer Relationships:</u>

Self-service by online login

of clients will be encouraged

to view their portfolio statuses.

Personal service will also be

offered when online login is either not preferred or not possible.

Face to face business development

and marketing activities will be done
for new clients
Ongoing face to fae engagements

with existing clients will also be

catered for.</td>
<td rowspan="2"><u>Customer Segments</u>

Small to medium co

that have at least

to invest for at lea

Listed companies th

R10 million to inv

High net-worth indi
have at least R1 mill
their investments</td>
</tr>
<tr>
<td><u>Key Resources:</u>
Markets Researchers

Portfolio Managers
Business Development Manager
Economist
Accountant

Administrators
Trading Desk Personnel
Computers</td>
<td><u>Channels:</u>
Company Website will be used for client to login and view investments.
Face to face engagements will be used
for clients queries.
Online/Email/Telephonic channels will also be used to engage potential
and existing clients.</td>
</tr>
</table>

Cost Structure: Business Development Fees Marketing Fees Vehicles for Business development and Marketing Insurance Vehicles Running Costs Office Rental Fees Telecommunications Fees (Voice, Data) Computer Purchase/Rental Fees Software Purchase/Rental Fees Staff Salaries Staff Continuous Professional development (Training) Fees Professional Membership Fees for Personnel (where applicable)	**Revenue Streams:** Fund Management Fees (Annual) Fund Management Fees (Outperformance)

Business Costs		Year 1	Year 2 + 6% CPI	Year 3 + 6% CPI	Year 4 + 6% CPI	Year 5 + 6% CPI	Year 6 + 6% CPI	Year 7 + 6% CPI	Year 8 + 6% CPI	Year 9
Office Rental	Annual	96 000,00	101 760,00	107 865,60	114 337,54	121 197,79	128 469,66	136 177,83	144 348,50	153
Computers (9 off) [Once every 3 years]	9 off	135 000,00	-		160 787,16	-		191 500,08	-	
Software	9 off	90 000,00	95 400,00	101 124,00	107 191,44	113 622,93	120 440,30	127 666,72	135 326,72	143
Vehicles [Once off every 5 years]	3 off	915 000,00	-	-	-	-	1 224 476,40	0	0	
Business Insurance	Annual	60 000,00	63 600,00	67 416,00	71 460,96	75 748,62	80 293,53	85 111,15	90 217,82	95
Telecommunication Fees	Annual	2 000,00	2 120,00	2 247,20	2 382,03	2 524,95	2 676,45	2 837,04	3 007,26	3 1
Training Fees	Annual	40 000,00	-	44 944,00	-	50 499,08	-	56 740,76	-	63
Professional Membership Fees	Annual	20 000,00	21 200,00	22 472,00	23 820,32	25 249,54	26 764,51	28 370,38	30 072,61	31 8
Staff Salaries	9 People Annually	6 500 000,00	6 890 000,00	7 303 400,00	7 741 604,00	8 206 100,24	8 698 466,25	9 220 374,23	9 773 596,68	10 36
Total Annual Costs		**7 858 000,00**	**7 174 080,00**	**7 649 468,80**	**8 221 583,45**	**8 594 943,14**	**10 281 587,11**	**9 848 778,20**	**10 176 569,59**	**10 85**

Revenue with 10% Profit	8 731 111,11	7 971 200,00	8 499 409,78	9 135 092,72	9 549 936,83	11 423 985,68	10 943 086,88	11 307 299,55	12 05
Assets Under Management	**436 555 555,56**	**398 560 000,00**	**424 970 488,89**	**456 754 636,00**	**477 496 841,32**	**571 199 284,04**	**547 154 344,24**	**565 364 977,38**	**602 82**

2% Fees Revenue	**8 731 111,11**	**7 971 200,00**	**8 499 409,78**	**9 135 092,72**	**9 549 936,83**	**11 423 985,68**	**10 943 086,88**	**11 307 299,55**	**12 05**
Gross Profit (Revenue - Costs)	**873 111,11**	**797 120,00**	**849 940,98**	**913 509,27**	**954 993,68**	**1 142 398,57**	**1 094 308,69**	**1 130 729,95**	**1 205**
Gross Profit Margin	10,0%	10,0%	10,0%	10,0%	10,0%	10,0%	10,0%	10,0%	1(
Tax @ 27%	(235 740,00)	(215 222,40)	(229 484,06)	(246 647,50)	(257 848,29)	(308 447,61)	(295 463,35)	(305 297,09)	(325
Net Profit	**1 108 851,11**	**1 012 342,40**	**1 079 425,04**	**1 160 156,78**	**1 212 841,98**	**1 450 846,18**	**1 389 772,03**	**1 436 027,04**	**1 531**

Admin	400 000,00
2 x Quants	1 200 000,00
Bus Develop Mngr	650 000,00
2 x Marketing	1 000 000,00
2 x Portf Mngr	1 400 000,00
Economist	650 000,00

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